

## Message Text

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ACTION EUR-12

INFO OCT-01 AF-08 ARA-06 EA-07 NEA-10 IO-13 ISO-00 FEA-01  
ERDA-05 AID-05 CEA-01 CIAE-00 CIEP-01 COME-00 DODE-00  
EB-08 FPC-01 H-01 INR-07 INT-05 L-03 NSAE-00 NSC-05  
OMB-01 PM-04 USIA-06 OES-06 SP-02 SS-15 STR-04  
TRSE-00 ACDA-07 PA-01 PRS-01 /147 W  
-----121455Z 022779 /40

R 121249Z FEB 77

FM AMEMBASSY PARIS  
TO SECSTATE WASHDC 9714  
INFO ALL EC CAPITALS 0365  
USMISSION GENEVA  
USMISSION EC BRUSSELS  
USMISSION NATO  
AMEMBASSY BERN  
AMEMBASSY LISBON  
AMEMBASSY MADRID  
AMEMBASSY ABU DHABI  
AMEMBASSY ALGIERS  
AMEMBASSY CARACAS  
AMEMBASSY DOHA  
AMEMBASSY JAKARTA  
AMEMBASSY JIDDA  
AMEMBASSY KUWAIT  
AMEMBASSY LAGOS  
AMEMBASSY LIBREVILLE  
AMEMBASSY MUSCAT  
AMEMBASSY QUITO  
AMEMBASSY TEHRAN  
USINT BAGHDAD

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E.O. 11652: N/A  
TAGS: ENRG FR  
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SUBJECT: FRENCH PETROLEUM DEVELOPMENTS

REFS: (A) PARIS 02956; (B) PARIS 37946

1. SUMMARY: GOF HAS ANNOUNCED MODERATE PRICE  
INCREASES, (EFFECTIVE FEBRUARY 11) FOR REGULAR AND  
SUPER GASOLINE, DIESEL FUEL, HOME HEATING OIL AND HEAVY

INDUSTRIAL OIL. ON FEBRUARY 9 COUNCIL OF MINISTERS ALSO AUTHORIZED ELECTRICITE DE FRANCE AND 20 MAJOR INDUSTRIAL CONSUMERS OF HEAVY FUEL OIL TO CIRCUMVENT DOMESTIC OIL COMPANIES AND UNDERTAKE--IF THEY WISH--DIRECT INTERNATIONAL PURCHASES OF HEAVY FUEL OIL. SHORT RUN EFFECT OF MODERATELY HIGHER PRICES ENTAILED IN BOTH THESE DECISIONS WILL PROBABLY BE MORE PSYCHOLOGICAL THAN REAL AND SHOULD NOT DISRUPT PROGRESS RECENTLY DEMONSTRATED BY PRIME MINISTER BARRE'S ANTI-INFLATION PROGRAM. IN LONGER RUN, THEY SEEM TO SIGNAL GOVERNMENT INTENTION TO PASS ON PRICE INCREASES QUICKLY, AND ENCOURAGE CONSERVATION OF LIGHTER PETROLEUM PRODUCTS (THOSE MOST USED BY HOUSEHOLDS AND INDIVIDUAL CONSUMERS), WHILE SIMULTANEOUSLY FREEING INDUSTRY'S HANDS TO OBTAIN, AT LOWEST POSSIBLE PRICES, AS MUCH HEAVY INDUSTRIAL FUEL AS MIGHT BE NEEDED TO SUSTAIN HOPED-FOR ECONOMIC RECOVERY. END SUMMARY.

2. ON FEBRUARY 10, GOF ANNOUNCED PETROLEUM PRODUCT PRICE INCREASES WHICH DIRECTION DES CARBURANTS (DICA) CHIEF PIKETTY HAD TOLD US (PARA 2 REF A) WOULD BE FORTHCOMING. INCREASES, WHICH ARE LARGELY BASED ON DICA'S INITIAL READINGS OF OVERALL COSTS OF OIL IMPORTS UNDER OPEC TWO-TIERED SYSTEM, RANGE FROM 2.3 PERCENT (REGULAR GASOLINE) TO 8.2 PERCENT (HEAVY FUEL OIL). UNIT INCREASES AUTHORIZED WERE (NEW PRICES IN PARENTHESES): REGULAR GASOLINE--5 CENTIMES (2.14 FR\$/LITER); SUPER GASOLINE--6 CENTIMES (2.31 FR\$/LITER); DIESEL OIL--5 CENTIMES (1.39 FR\$/LITER); HOME HEATING OIL--

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4.9 CENTIMES (0.78 FR\$/LITER); HEAVY FUEL OIL--30 FRANCS (394 FR\$/TON). (ON FEBRUARY 11, 4.97 FRANCS EQUALLED ONE DOLLAR.) PRIME MINISTER'S COMMUNIQUE, WHICH ACCOMPANIED ANNOUNCEMENT OF NEW PRICES, SPECIFIED THAT WHILE "5 PERCENT INCREASE DRAWN UP AT END OF 1976 BY MODERATE PRODUCERS WAS RETAINED AS BASIS FOR THEIR DECISIONS", ADDITIONAL COSTS BRINGING CALCULATION OF OVERALL AVERAGE INCREASE UP TO 6.5 PERCENT HAVE BEEN CALCULATED BOTH AS A RESULT OF DOLLAR/FRANC RELATIONSHIP ON EFFECTIVE DATE OF NEW PRICES AND ALSO BECAUSE OF TRANSPORTATION AND HANDLING COSTS. NORM OF 6.5 PERCENT ACTUALLY USED, WHILE IT CORRESPONDS EXACTLY TO BARRE PLAN'S PERMISSABLE INFLATION GUIDELINE, SHOWS GOF'S INITIAL 1977 EFFORT IN OIL PRICE REGULATION TO BE CUTTING FULL PERCENTAGE POINT BELOW DICA'S EXPECTED 7.5 PERCENT OVERALL INCREASE IN 1977 OIL IMPORT COSTS (PARA 3, REF A), AND IT DEMONSTRATES GOVERNMENT'S SENSITIVITY TO POSSIBLE INFLATIONARY IMPLICATIONS OF HIGHER PETROLEUM PRICES AT TIME WHEN GOF WOULD DEARLY

LIKE TO HAVE FRENCH ECONOMIC INDICATORS CONTINUE TO  
SHOW STABILIZING TRENDS WHICH BEGAN IN DECEMBER. WE  
THINK INCREASES FOR REGULAR AND SUPER GASOLINE, DIESEL  
AND HOME HEATING OILS ARE SMALL ENOUGH--IN-AND-OF  
THEMSELVES--TO JUSTIFY GOF'S SHORT-RUN NON-INFLATIONARY  
EXPECTATIONS. IN END, HOWEVER, AS OFFICIAL GOF  
PRONOUNCEMENTS HAVE CLEARLY SIGNED, WORLD MARKET  
TRENDS WILL DICTATE COURSE OF DOMESTIC PRICES HERE.  
ADDITIONAL INCREASES LATER THIS YEAR MAY BE EXPECTED.

3. HEAVY FUEL OIL SITUATION IS DIFFERENT, BUT GOF

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TRSE-00 ACDA-07 PA-01 PRS-01 /147 W  
-----121457Z 022970 /40

R 121249Z FEB 77  
FM AMEMBASSY PARIS  
TO RUEHC/SECSTATE WASHDC 9715  
INFO ALL EC CAPITALS 0366  
USMISSION GENEVA  
USMISSION EC BRUSSELS  
USMISSION NATO  
AMEMBASSY BERN  
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ACTION IN THIS INSTANCE ALSO FITS INTO PRICE POLICY PATTERN AIMING AT MINIMUM POSSIBLE, AND HOPEFULLY NON-INFLATIONARY, INCREASES AT THIS CRITICAL STAGE OF BARRE PROGRAM. ACTUALLY, HEAVY FUEL OIL PRICE WAS INITIALLY EXPECTED TO INCREASE 11 PERCENT, OR 40 FRS/TON. THIS WAS AMOUNT LOCAL OIL COMPANIES SAID THEY HAD TO HAVE TO MAKE UP LOSSES INCURRED BY BEING FORCED TO SELL PRODUCT AT LOW, CONTROLLED FRENCH PRICE OF 364 FR/TON. COMPANY EXPECTATIONS WERE NOT MET, HOWEVER, WHEN "PROMISED" 40 FRANC INCREASE SCHEDULED TO BE PUBLISHED BY GOVERNMENT ON FEBRUARY 2 WAS RECALLED AT ELEVENTH HOUR AND SUBSEQUENTLY REDUCED TO 30 FRANCS. FURTHERMORE ON FEBRUARY 9, COUNCIL OF MINISTERS AUTHORIZED ELECTRICITE DE FRANCE AND 20 OTHER MAJOR INDUSTRIAL CONSUMERS OF HEAVY FUEL OIL TO BEGIN HOLDING A-3 PETROLEUM PRODUCT IMPORTING AND MARKETING LICENSES AND THUS--IF THEY WISHED--TO CIRCUMVENT DOMESTIC OIL COMPANIES (WHOSE A-3 LICENSES HAVE NOT RPT NOT BEEN REDUCED) AND PURCHASE HEAVY FUEL OILS DIRECTLY IN INTERNATIONAL MARKET. THIS ACTION BY THE COUNCIL FULFILLS A LAURE-COMMISSION RECOMMENDATION OF TWO YEARS AGO.

4. SHORT RUN EFFECT OF DIRECT PURCHASE DECISION IS LIKELY TO BE MORE PSYCHOLOGICAL THAN REAL. COUPLED WITH NEW INTERNAL FRENCH HEAVY FUEL PRICE OF 394 FR/TON, INDUSTRIAL CONSUMERS HERE WILL FIND LITTLE TO ATTRACT THEM TO CURRENT ROTTERDAM PRICES OF ABOUT 411 FR/TON. GAP IS CLOSING, HOWEVER, AND SHOULD GOF LATER THIS YEAR LET INTERNAL PRICES PULL ABREAST OF INTERNATIONAL ONES, FRENCH INDUSTRIAL CONSUMERS COULD HAVE SOME LEVERAGE IN THEIR UPCOMING HEAVY FUEL CONTRACT NEGOTIATIONS WITH LOCAL OIL COMPANIES. THIS LEVERAGE, GOF HOPES, WILL OPERATE TO LET INDUSTRY OBTAIN, AT LOWEST REASONABLE PRICES, AS MUCH HEAVY INDUSTRIAL FUEL AS MIGHT BE NEEDED TO SUSTAIN PLANNED ECONOMIC GROWTH. IN THESE

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CIRCUMSTANCES, IF WORLD OIL MARKET DICTATES NECESSITY  
OF FURTHER PRICE INCREASES IN FRANCE THIS YEAR, WE  
IMAGINE THAT IT WILL BE THE PRODUCTS OFF LIGHTER END  
OF BARREL (GASOLINE, DIESEL, HOME HEATING OIL) WHICH  
WILL FIRST BE SUBJECTED TO PASS-ON OF PRICE INCREASES,  
CONSERVATION JAWBONING, AND CURTAILMENT OF CONSUMPTION  
IF NECESSARY. HEAVY INDUSTRIAL OILS WILL BE SPARED  
THIS TREATMENT FOR AS LONG AS POSSIBLE. WHILE HEAVY  
OILS ADMITTEDLY TOOK LARGEST INCREASE AS RESULT OF  
FEBRUARY 10 PRICE DECISIONS, THIS WAS DONE SIMPLY  
TO CORRECT RECENT PRICE DISTORTION BETWEEN LOCAL AND  
INTERNATIONAL MARKETS. WE FEEL LONGER RUN WILL SHOW  
GOF INCLINATION TO RETAIN STABLE HEAVY FUEL PRICES IN  
CIRCUMSTANCES WHERE OTHER, LIGHTER PRODUCTS WILL BE  
PERMITTED TO BECOME MORE EXPENSIVE.  
RUSH

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## Message Attributes

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**Decaption Date:** 01-Jan-1960 12:00:00 am  
**Decaption Note:**  
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**Disposition Approved on Date:**  
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**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 22 May 2009  
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**Original Previous Classification:** n/a  
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